

CITY OF HARTLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 6-7
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 8-9
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 10
Fiduciary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 11
Notes to Financial Statements	12-21
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	23
Notes to Required Supplementary Information - Budgetary Reporting	24
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Non-major Governmental Funds	1 26
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Non-major Proprietary Funds	2 27
Schedule of Indebtedness	3 28
Note Maturities	4 29
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5 30
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32
Schedule of Findings	33-36

CITY OF HARTLEY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Clayton Pyle	Mayor	January, 2010
Ian Coburn	Council Member	January, 2010
Jerry Olson	Council Member	January, 2010
Ann Petersen	Council Member	January, 2010
Kevin Snider	Council Member	January, 2012
Gina Wiekamp	Council Member	January, 2012
Brian Pals	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hartley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 23 and 24 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for each of the years in the six year period ended June 30, 2008 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 30, 2009

Hunzelman, Putzler & Co.

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities							
Public safety	\$ 263,584	\$ 79,265	\$ 16,789	\$ 3,805	\$ (163,725)	\$ -	\$ (163,725)
Public works	293,157	12,948	147,242	-	(132,967)	-	(132,967)
Culture and recreation	326,516	30,160	19,128	-	(277,228)	-	(277,228)
Community and economic development	526,164	-	-	161,524	(364,640)	-	(364,640)
General government	93,356	-	-	-	(93,356)	-	(93,356)
Debt service	56,470	-	-	-	(56,470)	-	(56,470)
Total governmental activities	<u>1,559,247</u>	<u>122,373</u>	<u>183,159</u>	<u>165,329</u>	<u>(1,088,386)</u>	<u>-</u>	<u>(1,088,386)</u>
Business type activities							
Water	586,170	219,043	-	-	-	(367,127)	(367,127)
Sewer	325,021	195,380	-	-	-	(129,641)	(129,641)
Electric	1,316,078	1,388,324	-	-	-	72,246	72,246
Gas	867,746	934,336	-	-	-	66,590	66,590
Solid waste	112,763	125,384	-	-	-	12,621	12,621
Consumer deposit	18,339	17,685	-	-	-	(654)	(654)
Cable	126,676	120,678	-	-	-	(5,998)	(5,998)
Total business type activities	<u>3,352,793</u>	<u>3,000,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(351,963)</u>	<u>(351,963)</u>
Total	<u>\$ 4,912,040</u>	<u>\$ 3,123,203</u>	<u>\$ 183,159</u>	<u>\$ 165,329</u>	<u>(1,088,386)</u>	<u>(351,963)</u>	<u>(1,440,349)</u>
General Receipts:							
Property tax levied for general purposes:					285,470	-	285,470
Tax increment financing					197,368	-	197,368
Local option sales tax					174,170	-	174,170
Unrestricted interest on investments					30,195	50,988	81,183
Special assessments					7,918	-	7,918
Sale of assets					18,318	-	18,318
Miscellaneous					11,271	-	11,271
Transfers					55,452	(55,452)	-
Total general receipts and transfers					<u>780,162</u>	<u>(4,464)</u>	<u>775,698</u>

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A
(Continued)

	<u>Program Receipts</u>				<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Change in cash basis net assets					\$ (308,224)	\$ (356,427)	\$ (664,651)
Cash basis net assets beginning of year					<u>1,435,325</u>	<u>2,030,442</u>	<u>3,465,767</u>
Cash basis net assets end of year					<u>\$ 1,127,101</u>	<u>\$ 1,674,015</u>	<u>\$2,801,116</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 140,297	\$ -	\$ 140,297
Tax increment financing projects					158,452	-	158,452
Debt service					47,484	744,828	792,312
Other purposes					273,663	-	273,663
Unrestricted					<u>507,205</u>	<u>929,187</u>	<u>1,436,392</u>
Total cash basis net assets					<u>\$ 1,127,101</u>	<u>\$ 1,674,015</u>	<u>\$2,801,116</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	General	Special Revenue				Nonmajor	Total
		Road Use	Library Expendable Trust	Tax Increment Financing	Local Option Sales Tax		
Receipts:							
Property tax	\$ 186,838	\$ -	\$ -	\$ -	\$ -	\$ 98,632	\$ 285,470
Tax increment financing	-	-	-	197,368	-	-	197,368
Other city tax	-	-	-	-	174,170	-	174,170
Licenses and permits	3,567	-	-	-	-	-	3,567
Use of money and property	39,144	-	8,515	-	-	-	47,659
Intergovernmental	23,427	143,786	-	157,767	-	-	324,980
Charges for service	92,768	-	-	-	-	-	92,768
Special assessments	-	-	-	-	-	7,918	7,918
Miscellaneous	37,831	-	166	-	-	5,357	43,354
Total receipts	<u>383,575</u>	<u>143,786</u>	<u>8,681</u>	<u>355,135</u>	<u>174,170</u>	<u>111,907</u>	<u>1,177,254</u>
Disbursements:							
Operating:							
Public safety	263,584	-	-	-	-	-	263,584
Public works	68,381	224,776	-	-	-	-	293,157
Culture and recreation	300,757	-	25,759	-	-	-	326,516
Community and economic development	616	-	-	473,462	-	52,086	526,164
General government	93,356	-	-	-	-	-	93,356
Debt service	-	-	-	-	-	56,470	56,470
Total disbursements	<u>726,694</u>	<u>224,776</u>	<u>25,759</u>	<u>473,462</u>	<u>-</u>	<u>108,556</u>	<u>1,559,247</u>
Excess (deficiency) of receipts over disbursements	<u>(343,119)</u>	<u>(80,990)</u>	<u>(17,078)</u>	<u>(118,327)</u>	<u>174,170</u>	<u>3,351</u>	<u>(381,993)</u>
Other financing sources (uses):							
Operating transfers in	248,337	-	-	15,760	-	93,337	357,434
Operating transfers out	-	(15,760)	-	(15,194)	(176,420)	(94,608)	(301,982)
Sales of assets	18,317	-	-	-	-	-	18,317
Total other financing sources (uses)	<u>266,654</u>	<u>(15,760)</u>	<u>-</u>	<u>566</u>	<u>(176,420)</u>	<u>(1,271)</u>	<u>73,769</u>
Net change in cash balances	(76,465)	(96,750)	(17,078)	(117,761)	(2,250)	2,080	(308,224)
Cash balances beginning of year	<u>320,487</u>	<u>237,047</u>	<u>280,261</u>	<u>276,213</u>	<u>93,539</u>	<u>227,778</u>	<u>1,435,325</u>
Cash balances end of year	<u>\$ 244,022</u>	<u>\$ 140,297</u>	<u>\$ 263,183</u>	<u>\$ 158,452</u>	<u>\$ 91,289</u>	<u>\$ 229,858</u>	<u>\$ 1,127,101</u>

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B
(Continued)

	<u>General</u>	<u>Special Revenue</u>				<u>Nonmajor</u>	<u>Total</u>
		<u>Road Use</u>	<u>Library Expendable Trust</u>	<u>Tax Increment Financing</u>	<u>Local Option Sales Tax</u>		
Cash Basis Fund Balances							
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,484	\$ 47,484
Unreserved:							
General	244,022	-	-	-	-	-	244,022
Special revenue	-	140,297	263,183	158,452	91,289	91,302	744,523
Permanent	-	-	-	-	-	91,072	91,072
Total cash basis fund balances	<u>\$244,022</u>	<u>\$140,297</u>	<u>\$ 263,183</u>	<u>\$ 158,452</u>	<u>\$ 91,289</u>	<u>\$ 229,858</u>	<u>\$ 1,127,101</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	Enterprise					Total
	Water	Electric	Gas	Cable	Nonmajor	
Operating Receipts:						
Use of money and property	\$ -	\$ 603	\$ -	\$ -	\$ 1,120	\$ 1,723
Charges for service	215,280	1,385,981	921,286	32	317,947	2,840,526
Miscellaneous	3,763	1,740	13,050	120,646	19,382	158,581
Total operating receipts	219,043	1,388,324	934,336	120,678	338,449	3,000,830
Operating Disbursements:						
Business type activities	547,690	1,119,468	867,746	9,083	339,193	2,883,180
Excess (deficiency) of operating receipts over operating disbursements	(328,647)	268,856	66,590	111,595	(744)	117,650
Non-operating receipts (disbursements):						
Interest on investments	2,936	30,320	2,901	8,756	6,075	50,988
Debt service	(38,480)	(196,610)	-	(117,593)	(116,930)	(469,613)
Net non-operating receipts (disbursements)	(35,544)	(166,290)	2,901	(108,837)	(110,855)	(418,625)
Excess (deficiency) of receipts over disbursements	(364,191)	102,566	69,491	2,758	(111,599)	(300,975)
Operating transfers in	-	15,194	-	-	-	15,194
Operating transfers out	-	(34,401)	(36,245)	-	-	(70,646)
	-	(19,207)	(36,245)	-	-	(55,452)
Net change in cash balances	(364,191)	83,359	33,246	2,758	(111,599)	(356,427)
Cash balances beginning of year	225,865	1,051,279	159,842	271,550	321,906	2,030,442
Cash balances end of year	\$ (138,326)	\$ 1,134,638	\$ 193,088	\$ 274,308	\$ 210,307	\$ 1,674,015
Cash Basis Fund Balances						
Reserved for debt service	\$ 79,219	\$ 487,674	\$ -	\$ 170,663	\$ 7,272	\$ 744,828
Unreserved	(217,545)	646,964	193,088	103,645	203,035	929,187
Total cash basis fund balances	\$ (138,326)	\$ 1,134,638	\$ 193,088	\$ 274,308	\$ 210,307	\$ 1,674,015

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
FIDUCIARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit D

Agency
Fund- Hart
2020

Receipts:	
None	\$ -
Disbursements:	
Community and economic development	<u>1,850</u>
Net change in cash balances	(1,850)
Cash balances beginning of year	<u>4,548</u>
Cash balances end of year	<u>\$ 2,698</u>
Cash Basis Fund Balances	
Reserved:	
Agency fund	<u>\$ 2,698</u>

See notes to financial statements.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2009:

Receipts:

Contributions from other governments:

City of Hartley	\$ 70,200
City of Sanborn	59,800
Interest	<u>169</u>
	<u>130,169</u>

Disbursements:

Salaries	56,640
Benefits	26,918
Workers compensation insurance	6,361
Property insurance	4,137
Diesel fuel	17,029
Truck maintenance and repairs	18,560
Professional fees	250
Miscellaneous	<u>784</u>
	<u>130,679</u>

Net	(510)
Balance, beginning of year	<u>6,013</u>
Balance, end of year	<u>\$ 5,503</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 32.9% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2008, which is the latest information available, is \$306,169.

Jointly Governed Organizations -The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2009, were \$16,847.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

The City also reports the following fiduciary fund:

The Agency fund is used to account for fiduciary assets held by the City in a custodial capacity or as an agent on behalf of others.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

City of Hartley maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

2. CASH

The City's deposits in banks at June 30, 2009, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

3. NOTES PAYABLE

Annual debt service requirements to maturity for revenue, general obligation, and special assessment notes are as follows:

Year Ending June 30,	<u>Revenue Notes</u>		<u>Revenue Capital Loan Notes</u>		<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 98,000	\$ 60,070	\$ 210,000	\$ 105,230	\$ 61,000	\$ 20,000
2011	100,000	56,697	220,000	95,442	67,000	17,085
2012	102,000	53,198	230,000	85,036	67,000	13,842
2013	110,000	49,582	240,000	73,850	73,000	10,560
2014	111,000	45,603	255,000	61,888	28,000	6,935
2015-2019	577,000	163,777	1,060,000	121,445	118,000	14,108
2020-2024	516,000	69,647	-	-	-	-
2025	111,000	3,673	-	-	-	-
Total	<u>\$ 1,725,000</u>	<u>\$ 502,247</u>	<u>\$ 2,215,000</u>	<u>\$ 542,891</u>	<u>\$ 414,000</u>	<u>\$ 82,530</u>

Year Ending June 30,	<u>Special Assessment Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 10,000	\$ 300	\$ 379,000	\$ 185,600
2011	-	-	387,000	169,224
2012	-	-	399,000	152,076
2013	-	-	423,000	133,992
2014	-	-	394,000	114,426
2015-2019	-	-	1,755,000	299,330
2020-2024	-	-	516,000	69,647
2025	-	-	110,000	3,673
Total	<u>\$ 10,000</u>	<u>\$ 300</u>	<u>\$ 4,364,000</u>	<u>\$ 1,127,968</u>

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$400,000 in water revenue notes issued in November, 2003. Proceeds from the notes provided financing for constructing improvements and extensions to the water system. The notes are payable solely from water customer net receipts and are payable through 2018. The total principal and interest remaining to be paid on the notes is \$334,087. For the current year, principal and interest paid and total customer net receipts were \$38,480 and \$(328,647), respectively.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

3. NOTES PAYABLE - (Continued)

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,732,000 in sewer revenue notes issued in July and December, 2004. Proceeds from the notes provided financing for construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$1,859,840. For the current year, principal and interest paid and total customer net receipts were \$116,930 and \$(12,711) respectively.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,900,000 in electric revenue capital loan notes issued in February, 2001. Proceeds from the notes provided financing for construction of improvements to the electric system. The notes are payable solely from electric customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$1,571,541. For the current year, principal and interest paid and total customer net receipts were \$196,610 and \$268,856 respectively.

The City has pledged future telecommunication customer receipts, net of specified operating disbursements, to repay \$1,300,000 in telecommunication revenue capital loan notes issued in March, 2004. Proceeds from the notes provided financing for construction of improvements to the telecommunication system. The notes are payable solely from telecommunication customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$1,186,350. For the current year, principal and interest paid and total customer net receipts were \$117,593 and \$111,595 respectively.

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate sewer, electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$190,000 for electric and \$40,000 for water. Sufficient monthly transfers shall be made to the telecommunication reserve account in an amount equal to twenty five percent of the monthly sinking fund transfers until a balance of \$130,000 has been accumulated.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$4,157 for the year ended June 30, 2009. Minimum amounts payable under this operating lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 4,157
2011	4,157
2012	3,117

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$38,807, \$35,079, and \$33,397 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 23,672
Sick leave	<u>122,721</u>
Total	<u>\$ 146,393</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2009.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$16,847 for the year ended June 30, 2009.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The latest audit report available is for the year ended June 30, 2008 and reflects the closure and post-closure costs to the agency have been estimated at \$1,915,013 as of June 30, 2008, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2008, deposits of \$1,376,261 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2009, consists of the following:

Transmission capacity	\$ 299,156
Members' advances for transmission capacity	195,855
Other members' capital	12,612
Membership	<u>100</u>
	<u>\$ 507,723</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

9. INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2009, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit	\$ 94,608
	Local Option Sales Tax	83,083
	Enterprise:	
	Electric	34,401
	Gas	36,245
		<u>248,337</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>46,190</u>
Special Revenue:	Special Revenue:	
Economic Development	Local Option Sales Tax	47,147
Tax Increment Financing	Road Use	15,760
		<u>62,907</u>
Enterprise:	Special Revenue:	
Electric	Tax Increment Financing	15,194
		<u>\$ 372,628</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

12. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2009.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-09</u>	<u>Remaining Commitment As of 6-30-09</u>
2008 PCC paving project	\$ 418,657	\$ 406,792	\$ 11,865
Substation improvement	33,948	31,328	2,620
Water treatment plant	2,329,375	-	2,329,375
Engineering-water plant	651,764	351,298	300,466

The remaining commitments on these projects will be financed with federal stimulus funds (\$1,040,0000), a community development block grant (\$500,000), water revenue bonds (\$1,000,000), general obligation bonds (\$560,000) and funds on hand.

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$1,400,000 and \$2,500,000 respectively, of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$435,140 and \$148,652 is outstanding at June 30, 2009. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

14. DEFICIT BALANCE

The Enterprise Water Fund had a deficit balance of \$138,326 at June 30, 2009. The deficit balance is a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon the receipt of a state grant, bond proceeds, and federal stimulus funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	<u>Budgeted Amounts</u>		Final to Total Variance
				<u>Original</u>	<u>Final</u>	
Receipts:						
Property tax	\$ 285,470	\$ -	\$ 285,470	\$ 283,352	\$ 283,352	\$ 2,118
Tax increment financing	197,368	-	197,368	184,047	184,047	\$ 13,321
Other city tax	174,170	-	174,170	128,700	128,700	45,470
Licenses and permits	3,567	-	3,567	2,750	2,750	817
Use of money and property	47,659	52,711	100,370	82,150	82,150	18,220
Intergovernmental	324,980	-	324,980	365,295	365,295	(40,315)
Charges for service	92,768	2,840,526	2,933,294	2,838,950	2,838,950	94,344
Special assessments	7,918	-	7,918	8,050	8,050	(132)
Miscellaneous	43,354	158,581	201,935	155,924	155,924	46,011
Total receipts	<u>1,177,254</u>	<u>3,051,818</u>	<u>4,229,072</u>	<u>4,049,218</u>	<u>4,049,218</u>	<u>179,854</u>
Disbursements:						
Public safety	263,584	-	263,584	287,707	287,707	24,123
Public works	293,157	-	293,157	377,719	377,719	84,562
Culture and recreation	326,516	-	326,516	217,608	342,608	16,092
Community and economic development	526,164	-	526,164	284,903	314,903	(211,261)
General government	93,356	-	93,356	124,805	124,805	31,449
Debt service	56,470	-	56,470	56,470	56,470	-
Capital projects	-	-	-	55,000	445,000	445,000
Business type activities	-	3,352,793	3,352,793	3,573,456	3,573,456	220,663
Total disbursements	<u>1,559,247</u>	<u>3,352,793</u>	<u>4,912,040</u>	<u>4,977,668</u>	<u>5,522,668</u>	<u>610,628</u>
Excess (deficiency) of receipts over disbursements	(381,993)	(300,975)	(682,968)	(928,450)	(1,473,450)	790,482
Other financing sources (uses), net	<u>73,769</u>	<u>(55,452)</u>	<u>18,317</u>	<u>-</u>	<u>-</u>	<u>18,317</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(308,224)	(356,427)	(664,651)	(928,450)	(1,473,450)	808,799
Balances, beginning of year	<u>1,435,325</u>	<u>2,030,442</u>	<u>3,465,767</u>	<u>2,509,125</u>	<u>2,509,125</u>	<u>956,642</u>
Balances, end of year	<u>\$ 1,127,101</u>	<u>\$ 1,674,015</u>	<u>\$2,801,116</u>	<u>\$ 1,580,675</u>	<u>\$ 1,035,675</u>	<u>\$ 1,765,441</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$545,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 1

	Special Revenue				Permanent	
	Employee	Economic	Owner	Debt	Cemetery	
	Benefits	Development	Occupied	Service	Perpetual	Total
			Rehab		Care	
Receipts:						
Property tax	\$ 98,632	\$ -	\$ -	\$ -	\$ -	\$ 98,632
Special assessments	-	-	-	7,918	-	7,918
Miscellaneous	-	3,757	-	-	1,600	5,357
Total receipts	<u>98,632</u>	<u>3,757</u>	<u>-</u>	<u>7,918</u>	<u>1,600</u>	<u>111,907</u>
Disbursements:						
Community and economic development	-	51,386	700	-	-	52,086
Debt service	-	-	-	56,470	-	56,470
Total disbursements	<u>-</u>	<u>51,386</u>	<u>700</u>	<u>56,470</u>	<u>-</u>	<u>108,556</u>
Excess (deficiency) of receipts over disbursements	<u>98,632</u>	<u>(47,629)</u>	<u>(700)</u>	<u>(48,552)</u>	<u>1,600</u>	<u>3,351</u>
Other financing sources (uses):						
Operating transfers in	-	47,147	-	46,190	-	93,337
Operating transfers out	(94,608)	-	-	-	-	(94,608)
Total other financing sources (uses)	<u>(94,608)</u>	<u>47,147</u>	<u>-</u>	<u>46,190</u>	<u>-</u>	<u>(1,271)</u>
Net change in cash balances	4,024	(482)	(700)	(2,362)	1,600	2,080
Cash balances beginning of year	<u>77,205</u>	<u>482</u>	<u>10,773</u>	<u>49,846</u>	<u>89,472</u>	<u>227,778</u>
Cash balances end of year	<u>\$ 81,229</u>	<u>\$ -</u>	<u>\$ 10,073</u>	<u>\$ 47,484</u>	<u>\$ 91,072</u>	<u>\$ 229,858</u>
Cash Basis Fund Balances						
Unreserved:						
Special Revenue	\$ 81,229	\$ -	\$ 10,073	\$ -	\$ -	\$ 91,302
Debt Service	-	-	-	47,484	-	47,484
Permanent	-	-	-	-	91,072	91,072
Total cash basis fund balances	<u>\$ 81,229</u>	<u>\$ -</u>	<u>\$ 10,073</u>	<u>\$ 47,484</u>	<u>\$ 91,072</u>	<u>\$ 229,858</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 2

	<u>Enterprise</u>			
	<u>Sewer</u>	<u>Solid Waste</u>	<u>Consumer Deposit</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ -	\$ 1,120	\$ -	\$ 1,120
Charges for service	194,464	123,483	-	317,947
Miscellaneous	916	781	17,685	19,382
Total operating receipts	195,380	125,384	17,685	338,449
Operating disbursements:				
Business type activities	208,091	112,763	18,339	339,193
Excess (deficiency) of operating receipts over operating disbursements	(12,711)	12,621	(654)	(744)
Non-operating receipts (disbursements)				
Interest on investments	3,967	2,108	-	6,075
Debt service	(116,930)	-	-	(116,930)
Net non-operating receipts (disbursements)	(112,963)	2,108	-	(110,855)
Net change in cash balances	(125,674)	14,729	(654)	(111,599)
Cash balances beginning of year	188,800	93,691	39,415	321,906
Cash balances end of year	\$ 63,126	\$108,420	\$ 38,761	\$ 210,307
Cash Basis Fund Balances				
Reserved for debt service	\$ 7,272	\$ -	\$ -	\$ 7,272
Unreserved	55,854	108,420	38,761	203,035
Total cash basis fund balances	\$ 63,126	\$108,420	\$ 38,761	\$ 210,307

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue Notes:									
Water	November 1, 2003	4.00-5.20%	\$ 400,000	\$ 290,000	\$ -	\$ 25,000	\$ 265,000	\$ 13,480	\$ -
Sewer	July 20, 2004	3.00	1,300,000	1,151,000	-	53,000	1,098,000	34,530	-
Sewer	December 2, 2004	3.00	432,000	380,000	-	18,000	362,000	11,400	-
			<u>\$2,132,000</u>	<u>\$ 1,821,000</u>	<u>\$ -</u>	<u>\$ 96,000</u>	<u>\$1,725,000</u>	<u>\$ 59,410</u>	<u>\$ -</u>
Revenue Capital Loan Notes:									
Electric	February 1, 2001	5.15-5.55%	\$1,900,000	\$ 1,400,000	\$ -	\$ 125,000	\$1,275,000	\$ 71,610	\$ -
Telecommunication	March 1, 2004	3.50-4.90	1,300,000	1,015,000	-	75,000	940,000	42,593	-
			<u>\$3,200,000</u>	<u>\$ 2,415,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$2,215,000</u>	<u>\$ 114,203</u>	<u>\$ -</u>
General Obligation Notes:									
Library	June 1, 2001	4.80-5.10%	\$ 400,000	\$ 195,000	\$ -	\$ 35,000	\$ 160,000	\$ 9,580	\$ -
Street Improvement	June 1, 2008	4.75	280,000	280,000	-	26,000	254,000	13,706	-
			<u>\$ 680,000</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 61,000</u>	<u>\$ 414,000</u>	<u>\$ 23,286</u>	<u>\$ -</u>
Special Assessment:									
Street Improvement	September 1, 2000	6.00%	\$ 92,000	\$ 20,000	\$ -	\$ 10,000	\$ 10,000	\$ 1,190	\$ -

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTE MATURITIES
JUNE 30, 2009

Schedule 4

Year Ending June 30,	Revenue Notes						Special Assessment	Capital Loan Notes				General Obligation						Total
	Water Notes		Sewer Notes		Sewer Notes		Street Improvement	Electric Notes		Telecommunication Notes		Library Notes		Library Notes				
	Issued November 1, 2003		Issued July 20, 2004		Issued December 2, 2004		Issued September 1, 2000	Issued February 1, 2001		Issued March 1, 2004		Issued June 1, 2001		Issued June 1, 2008				
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2010	4.00%	\$ 25,000	3.00%	\$ 55,000	3.00%	\$ 18,000	6.00%	\$ 10,000	5.15%	\$ 130,000	3.50%	\$ 80,000	4.80%	\$ 35,000	4.75%	\$ 26,000	\$ 379,000	
2011	4.25	25,000	3.00	56,000	3.00	19,000	-	-	5.20	140,000	3.70	80,000	4.90	40,000	4.75	27,000	387,000	
2012	4.45	25,000	3.00	58,000	3.00	19,000	-	-	5.25	145,000	3.85	85,000	5.00	40,000	4.75	27,000	399,000	
2013	4.60	30,000	3.00	60,000	3.00	20,000	-	-	5.30	155,000	4.00	85,000	5.10	45,000	4.75	28,000	423,000	
2014	4.75	30,000	3.00	61,000	3.00	20,000	-	-	5.40	165,000	4.15	90,000	-	-	4.75	28,000	394,000	
2015	4.90	30,000	3.00	63,000	3.00	21,000	-	-	5.45	170,000	4.30	95,000	-	-	4.75	29,000	408,000	
2016	5.00	30,000	3.00	65,000	3.00	22,000	-	-	5.50	180,000	4.45	100,000	-	-	4.75	29,000	426,000	
2017	5.10	35,000	3.00	67,000	3.00	22,000	-	-	5.55	190,000	4.60	105,000	-	-	4.75	30,000	449,000	
2018	5.20	35,000	3.00	69,000	3.00	23,000	-	-	-	-	4.75	105,000	-	-	4.75	30,000	262,000	
2019	-	-	3.00	71,000	3.00	24,000	-	-	-	-	4.90	115,000	-	-	-	-	210,000	
2020	-	-	3.00	73,000	3.00	24,000	-	-	-	-	-	-	-	-	-	-	97,000	
2021	-	-	3.00	75,000	3.00	25,000	-	-	-	-	-	-	-	-	-	-	100,000	
2022	-	-	3.00	78,000	3.00	26,000	-	-	-	-	-	-	-	-	-	-	104,000	
2023	-	-	3.00	80,000	3.00	26,000	-	-	-	-	-	-	-	-	-	-	106,000	
2024	-	-	3.00	82,000	3.00	27,000	-	-	-	-	-	-	-	-	-	-	109,000	
2025	-	-	3.00	85,000	3.00	26,000	-	-	-	-	-	-	-	-	-	-	111,000	
		\$ 265,000		\$ 1,098,000		\$ 362,000		\$ 10,000		\$ 1,275,000		\$ 940,000		\$ 160,000		\$ 254,000	\$ 4,364,000	

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

Schedule 5

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:							
Property tax	\$ 285,470	\$ 343,191	\$ 331,406	\$ 257,032	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing	197,368	129	51,597	252,592	225,368	195,663	190,439
Other city tax	174,170	144,957	133,908	105,092	104,751	100,648	102,318
Licenses and permits	3,567	5,812	4,822	2,504	1,722	2,276	2,078
Use of money and property	47,659	82,017	92,321	71,301	70,569	51,061	25,239
Intergovernmental	324,980	207,138	313,154	291,785	222,787	193,663	183,300
Charges for service	92,768	80,276	81,220	76,163	59,127	58,675	85,040
Special assessments	7,918	8,844	8,751	10,920	14,771	26,674	16,620
Miscellaneous	43,354	37,964	20,428	36,494	328,814	42,931	28,748
Total	<u>\$1,177,254</u>	<u>\$ 910,328</u>	<u>\$1,037,607</u>	<u>\$1,103,883</u>	<u>\$1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:							
Operating:							
Public safety	\$ 263,584	\$ 247,013	\$ 320,624	\$ 198,068	\$ 239,950	\$ 215,464	\$ 345,606
Public works	293,157	270,278	157,003	121,779	128,081	337,381	164,224
Culture and recreation	326,516	177,783	171,010	186,992	149,383	163,893	171,509
Community and economic development	526,164	218,560	204,248	137,104	64,821	107,193	2,791
General government	93,356	65,888	77,679	82,092	73,675	96,598	89,965
Debt service	56,470	58,660	55,580	57,460	59,300	61,000	67,503
Total	<u>\$1,559,247</u>	<u>\$1,038,182</u>	<u>\$ 986,144</u>	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 30, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hartley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Hartley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Hartley's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Hartley's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hartley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Hartley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

November 30, 2009

Hungelma, Putzier & Co.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We will continue to look for ways to adjust our operating procedures to obtain the maximum internal control under the circumstances.

Conclusion - Response accepted.

I-B-09 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - The City Clerk/Administrator will try to attend educational courses to be able to report financial data using OCBOA and work with our auditors to make sure we are reporting correctly.

Conclusion - Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the Culture & Recreation and Community & Economic Development functions prior to the May 26, 2009 budget amendment, and in the Community & Economic Development function at June 30, 2009. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We try to control costs and time by amending the budget once a year but situations occur with City expenditures that are beyond our control. We will monitor funds more closely in the future and amend the budget before expenditures exceed the budget.

The reason we were over budget was the City amended the budget and increased Capital Projects but then expensed the project out of the Community & Economic Development function.

Conclusion - Response accepted.

- II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-09 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ken Snider, Council Member, owner of Snider Auto Care Center	Repairs/service	\$3,094
Sheri Tewes, Deputy Clerk mother owns Fanning Construction	Labor and materials	\$20,734

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions may represent a conflict of interest since the cumulative amounts were more than \$2,500 during the fiscal year.

Recommendation - The City should review those transactions closely and may want to consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - We will monitor our transactions and make sure we do not have a conflict of interest and consult with our city attorney.

Conclusion - Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting: - (Continued)

II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 City Council and S & H Minutes - The City Council minutes for 2009 were not signed and the minutes of S & H, a 28E organization, also were not signed. The minutes of S & H were not published in accordance with Chapter 28E.6 of the Code of Iowa. This section requires the publication to include a schedule of bills allowed, and that salaries of employees be published annually.

Recommendation - The City should ensure that the Council minutes are signed and that S & H comply with the requirements for publication of their minutes.

Response - The City will ensure that minutes are signed and will comply with publication requirements as identified by the auditors of S & H, the 28E organization.

Conclusion - Response accepted.

II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy were noted.

II-H-09 Revenue Notes - The City has established the sinking and reserve accounts required by the sewer, electric, water, and telecommunication revenue note resolutions. However, the sewer sinking fund was under funded as of June 30, 2009, by \$2,500.

Recommendation - The City should make the appropriate transfers to bring the balances up to the required levels.

Response - We will monitor the sinking funds more closely and make sure the correct amount is in the sinking funds to pay off debt. We will make the necessary transfers to match the balances required.

Conclusion - Response accepted.

II-I-09 Excess Balances - The following funds have balances at June 30, 2009, which are in excess of one year's expenditures:

Special Revenue - Library Expendable Trust
- Owner Occupied Rehab

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Library Expendable Trust - This amount was received from an estate and it will be disbursed according to the library's needs as determined by their board.

Owner Occupied Rehab - The City has received grant proceeds back from homes that have been sold before the forgivable time frame for past Rehabilitation Grants. The City will use these funds for the local match of a new Rehabilitation Grant.

Conclusion - Response accepted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting: - (Continued)

II-J-09 Financial Condition – At June 30, 2009 the City had a deficit balance in the Water Fund of \$138,326.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial condition.

Response – The Water Fund had a deficit balance because expenses occurred before loan funds were made available for the Water Treatment Project. Other City funds will be used to cover the deficit until loan funds can be received.

Conclusion – Response accepted.